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TELEGRAM NUMBER 642 OF 8 FEBRUARY, 1980,

INFO BONN, PARIS, ROME, TOKYO, UKREP BRUSSELS, AND UKDEL OECD.

USA 2

Prime Minister

Public reaction to  
US budget

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REACTIONS TO THE U S BUDGET FOR FY 1981.

1. THERE HAS BEEN LITTLE ENTHUSIASM AND A SUBSTANTIAL AMOUNT OF CRITICISM OF THE BUDGET.
2. FIRST REACTIONS AMONGST POLITICAL LEADERS WERE ON PREDICTABLE LINES. REPRESENTATIVE JIM WRIGHT, THE DEMOCRATIC MAJORITY LEADER IN THE HOUSE, SAID IT WAS A GOOD, TIGHT, AUSTERE BUDGET, THE BASIC FRAMEWORK OF WHICH WOULD BE ACCEPTABLE TO CONGRESS. WITH THE EXCEPTION OF SENATOR JAVITS, REPUBLICAN SPOKESMEN CONDEMNED THE BUDGET AS INFLATIONARY. THE DEFICIT WAS LOWER NOT BECAUSE OF CUTS IN SPENDING, BUT BECAUSE OF HIGHER TAXES. BOTH SENATOR KENNEDY AND GEORGE BUSH CRITICISED THE PRESIDENT FOR BREAKING HIS ELECTION PROMISE TO BALANCE THE BUDGET, AND RECALLED THAT IN HIS 1976 CAMPAIGN, THE PRESIDENT MADE MUCH OF HIS QUOTE MISERY INDEX UNQUOTE (THE SUM OF THE INFLATION AND UNEMPLOYMENT RATES). IT WAS THEN 13 PER CENT WHEREAS, ON THE BASIS OF ADMINISTRATION FORECASTS IT WILL BE 18 PER CENT AT THE END OF THIS YEAR. SENATOR KENNEDY CLAIMED THAT THE TOTAL DEFICIT IN THE CARTER YEARS WERE AN ALL TIME RECORD. THE CONGRESSIONAL BLACK CAUCUS COMPLAINED THAT THE BUDGET IGNORED THE NEEDS OF THE POOR.
3. THE SENATE AND HOUSE BUDGET COMMITTEES HAVE BEGUN THEIR CONSIDERATION OF THE BUDGET, AND IT HAS ATTRACTED LITTLE PRAISE BUT CONFLICTING CRITICISM. SENATOR MUSKIE, SENATOR BUDGET COMMITTEE CHAIRMAN, APPROVED OF THE CANDOR OF THE ADMINISTRATION IN FORECASTING A RECESSION, BUT EXPRESSED DISAPPOINTMENT THAT THE BUDGET DID NOT BALANCE. REPUBLICANS ON THE COMMITTEE ASKED FOR EVEN HIGHER DEFENCE SPENDING, BUT ALSO A TAX CUT. THERE WAS GENERAL UNEASE THAT THE BUDGET DID NOT ADDRESS THE PROBLEM OF INFLATION, WHICH THE ADMINISTRATION SEEMED TO BLAME TOO EASILY ON OPEC. IN THE HOUSE BUDGET COMMITTEE SEVERAL MEMBERS CLAIMED THAT THE BUDGET WAS BASED ON OPTIMISTIC ASSUMPTIONS, AND THE DEFICIT COULD BE SUBSTANTIALLY ABOVE DOLLARS 16 BN. THERE WAS AT THE SAME TIME PRESSURE FOR TAX CUTS.

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4. AMONG THE NEWSPAPERS THE WALL STREET JOURNAL'S EDITORIAL, HEADED QUOTE IMPRUDENT AND IRRESPONSIBLE UNQUOTE SAID THAT THE BUDGET WAS INFLATIONARY AND LARDED WITH ELECTION PORK. COMPARED WITH THE ORIGINAL EXPENDITURE TARGETS FOR FY80, THE FIGURE FOR FY81 REPRESENTED A 16 PERCENT INCREASE. INCOME TRANSFERS, WHICH ARE NOW 45 PER CENT OF THE BUDGET, ERODE SAVINGS AND CAPITAL FORMATION. AS REGARDS THE PORK BARREL, HOUSING SUBSIDIES WILL BE UP 12 PER CENT AND THE EXPENDITURE ON EMPLOYMENT AND TRAINING SCHEMES UP 18 PER CENT. ANOTHER ARTICLE POINTED OUT THAT MANY OF THE PRESIDENT'S LEGISLATIVE PROPOSALS, WHICH WOULD REDUCE EXPENDITURE, WERE UNLIKELY TO BE APPROVED BY CONGRESS.

5. IN THE WASHINGTON POST, UNDER THE HEADLINE QUOTE A BUDGET WRAPPED IN RED WHITE AND BLUE UNQUOTE HOBART ROWAN SAID THAT THIS WAS A WHOLLY POLITICAL BUDGET. THE PRESIDENT HAD NOT PRODUCED HIS PROMISED BALANCED BUDGET, OR PROGRAMMES TO DEAL WITH INFLATION AND UNEMPLOYMENT. TAXES WOULD NOT BE CUT, AND IN CONTRAST TO HIS ELECTION PROMISE, DEFENCE SPENDING WOULD BE INCREASED. ALL THIS HAS BEEN MADE POSSIBLE BY BREZHNEV AND KHOMEINI. WHEN THE PUBLIC FOCUSSES ON POCKET BOOK ISSUES, HE SAID, DON'T BE SURPRISED IF CARTER APPROPRIATES MUCH OF THE KENNEDY PROGRAMME.

6. ROBERT SAMUELSON, IN THE NEW YORK TIMES, SAID THAT THE BUDGET SHOWED THAT THE WHITE HOUSE WAS DRIFTING, ACCOMMODATING THE CONSTITUENCIES WHICH SEEM NEAREST AND MOST VISIBLE. SAMUELSON SAID THAT THE PRESIDENT STILL LACKED AN UNDERLYING VISION OF HOW ECONOMIC POLICY NEEDS TO BE REORIENTATED TO ADJUST TO THE LONG TERM PROBLEMS - PRODUCTIVITY, REDUCED WORLD ECONOMIC POWER, AND EXCESSIVE DEMANDS FOR LIMITED RESOURCES, THAT UNDERLY THE INFLATION. CARTER'S POLICIES WOULD CREATE MORE PROBLEMS THAN THEY SOLVED. SYMBOLIC WAS THE ABSENCE OF MEASURES, E.G. A GASOLINE TAX, TO REDUCE OIL DEMAND. THE PRESIDENT HAD ABANDONED HIS PLEDGE TO REDUCE GOVERNMENT SPENDING

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TO 21 PER CENT OF GNP - IT WILL BE 22 PER CENT IN FY81. CONGRESS AND THE WHITE HOUSE HAD CREATED THESE PROBLEMS OVER THE YEARS BY FINANCING NEW PROGRAMMES FROM THE REDUCTION IN DEFENCE SPENDING. THE PRESIDENT HAD EVADED THE PROBLEM THIS YEAR BY ALLOWING TAX REVENUE TO RISE, BUT THIS WOULD REDUCE INCENTIVES AND INVESTMENT.

HENDERSON

FINANCIAL DIST:  
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